EMCC case studies

Corporate social responsibility in Continental-Teves

Presentation of the case study: Continental-Teves
A moderately successful system of staff retraining
Discussion of the case

This case study is available in electronic format only
The European Foundation for the Improvement of Living and Working Conditions has produced 12 case studies around enterprises in four European countries which set out to analyse the extent and practice of corporate social responsibility (CSR). The project aims to reveal in what way European companies are developing models of best practice around the issue of working and employment conditions. In France the enterprises examined were Acome (electric cables), Arcelor (iron and steel), Chèque-Déjeuner (financial services) and Continental-Teves (automotive).

**Presentation of the case study: Continental-Teves**

The undertaking is a complex one, comprising various decision levels. The works studied is a company (Continental Teves) attached to one of the divisions of a major international group (Continental), that division having been acquired from another group (ITT) in the late 1990s. The group’s key figures over the period before the restructuring operation were as follows (Continental’s figures for 1998 reflect the effects of its purchase of ITT’s assets):

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<tbody>
<tr>
<td>Turnover (in billions of FFR)</td>
<td>52.4</td>
<td>56.3</td>
<td>66.3</td>
</tr>
<tr>
<td>Post-tax income</td>
<td>1</td>
<td>1.7</td>
<td>2.1</td>
</tr>
<tr>
<td>Workforce</td>
<td>67 000</td>
<td>67 200</td>
<td>93 500</td>
</tr>
</tbody>
</table>

Within Continental, the division is organised into three sections: the first is responsible for production of some of the subassemblies and their installation in the finished product, the second is responsible only for the production of another set of subassemblies, and the third produces those subassemblies that involve electronics. The works whose closure is examined here was one of the 13 industrial sites of the ‘subassemblies and systems’ section. Its turnover and workforce at the end of 1998 were, respectively, FFR 21 billion and 15,500 people. The economic situations of the various entities that make up this complex are as follows: the group is profitable; the division is profitable; within the division, two of the three sections are profitable, but the one to which the works belongs is loss-making; the works itself is profitable.

The works itself had the status of a company, and it was therefore at the level of that company (Continental-Teves) that the works council was established, and the information and consultation procedure organised. This company is an affiliate of a French SNC (a form of limited partnership), which is itself the affiliate of a holding company representing some of the Continental Group’s participating interests in France. The works is located in the eastern part of the Paris region and employs 280 people on open-ended contracts, two on fixed-term contracts and five apprentices.

The workers are unionised; the only union represented being the CGT. The works council comprises five permanent and five alternate members.

**A moderately successful system of staff retraining**

The case under review is typical of the course followed by industrial restructuring operations as carried out in major groups. It provides an illustration of the various choices open to those involved in the course of this type of process.

The decision to shut down the site formed part of a chain of economic causes and effects, and part of a context, resulting from those delocation/relocation movements that are typical of the present period. For reasons of
cost and choice of organisation, both industrial and logistical, the global players regularly have to make decisions to open and close production units owned by them in various countries. Thus, the restructuring operation considered here took place within the context of the continuous reorganisation of one of a group’s areas of activity in Europe. The history of this restructuring can be summarised as follows:

In 1991, the group opened a works in the former East Germany, in competition with the French site which was undergoing its first restructuring at that time (relocation of some of the workload). In 1996, a site was opened in the Czech Republic, supported by the closure of the Spanish site, and the French site was restructured for the second time. This restructuring operation was followed two years later by another, which provides the context for the subject of this study: the closure of the French site (the restructuring operation examined here) and of the German site in order to concentrate and reassign production operations to the Czech site. The operation considered here thus involves a long timeframe (nearly ten years) and a broad geographical extent (Europe including the candidate countries).

The site analysed here employed 720 people in the early 1990s and 280 by the end of the decade when the shutdown was announced. It is highly probable that the decision to close the French site had been taken somewhere between those two dates, very probably in 1996, during preparation of the plan that finalised the shutdown of the Spanish works and the second transfer of production from the French to the Czech works.

When Continental purchased ITT’s subassemblies and systems division, the plan to shut down the French works therefore was already in train. An immediate announcement of what was already a long-standing decision was not envisaged. It should be noted here that situations of this type are common, especially when restructuring leads to the closure of a site - and above all an industrial one. The decision to close predates the announcement of closure, often by several years. The present case is an example of that.

Another method of implementing restructuring is in the form of a bankruptcy filing. This happens in a small but steady number of cases. In the third category of cases, the announcement is made when the decision has been taken, and a process of retraining is embarked upon.

In the first two cases, the choice of procedure is based on the assumption that economic and industrial advantages may be derived from delaying the announcement: the hope is that production can continue under acceptable quality, productivity and cost conditions. This procedure, which is very socially irresponsible, sterilises the period during which the announcement is deferred, so that the other stakeholders cannot take advantage of it to anticipate future restructuring operations. It also involves substantial social risks, of which Vilvoorde provides an example.

In the third case, two difficulties arise. First, business activity has to continue under difficult conditions, the announcement of the closure being likely to create an atmosphere which all those involved in this study agreed was a trying one. Secondly, it is necessary to embark upon a process of planning alternatives, in the absence of which no cooperation is possible between participants whose futures and interests are violently opposed.

When Continental purchased ITT’s brake systems division, the management of the French affiliate took three socially responsible decisions:

1. to announce the future closure as quickly as possible, thus putting an end to a falsehood that had already been in existence for over two years,
2. to look for new economic activities,
3. and to prepare a redundancy programme aimed at retraining the 280 people employed at the works.

Three factors have been identified as leading to this decision, among which the first was critical:

1. A joint decision by the site management and the management of the French holding company not to embark upon a restructuring process that would not take place under satisfactory social conditions.

2. A risk to the group’s image and international reputation, which was regarded by its management as a stimulus to embark upon redeployment measures.

3. The existence of the Vilvoorde case, which both provided evidence of the risk in question and established a cost reference for operations of this type.

These decisions - and that taken by the local management to organise a transparent process - would make it possible to prepare a redundancy programme whose results may be regarded as very good in view of the redeployment statistics.

**Final balance sheet, one year after the start of the operation**

<table>
<thead>
<tr>
<th></th>
<th>Absolute</th>
<th>%</th>
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<tbody>
<tr>
<td>Early retirement</td>
<td>22.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Redeployment within the binding company</td>
<td>54.0</td>
<td>19.6</td>
</tr>
<tr>
<td>Redeployment within the logistics company</td>
<td>79.0</td>
<td>28.6</td>
</tr>
<tr>
<td>External redeployment</td>
<td>47.0</td>
<td>17.0</td>
</tr>
<tr>
<td>Business start-ups</td>
<td>4.0</td>
<td>1.4</td>
</tr>
<tr>
<td>Other solutions</td>
<td>6.0</td>
<td>2.2</td>
</tr>
<tr>
<td>Employees not covered</td>
<td>14.0</td>
<td>5.1</td>
</tr>
<tr>
<td>Job seekers</td>
<td>50.0</td>
<td>18.1</td>
</tr>
<tr>
<td>Total</td>
<td>276.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Once the decision to announce the closure had been made, it was immediately followed by another decision to look for new activities to compensate for the closure of the works. A working group was set up, OPTH4, comprising the site manager, the French Human Resources Department, two industrialisation consultants, a lawyer and the group Human Resources Department. Finally, sufficient time (two years, ending on 31 December 2000) was allowed for the operation to be conducted satisfactorily. This quest would result in the establishment - with financial support from Continental - of two activities, binding and logistics, which would offer a total of 170 sustainable jobs to those employed at the Continental Teves works.

Measures designed to establish new economic activities in the area which the Continental Group was leaving were accompanied by the establishment of a retraining mechanism for employees. The key measures of this mechanism resulted in the following organisation:

- a steering committee on retraining, involving the social partners,
the use of professionals to organise a job-seeking system whose task was to produce a balance-sheet and skills assessment for the employees, help them to plan new careers, and help them to find job offers,

- arranging sufficient time (in this case in the form of redeployment leave) for employees to arrange their retraining,

- finalisation of a valid offer of employment under open-ended contracts, which established the objective of finding long-term solutions for the employees concerned.

The complex comprising the steering device for the retraining operations (industrial and social), the creation of economic activities in the region concerned, and the introduction of a retraining mechanism for the employees are the tools used by the undertaking to exercise its social responsibility in the event of retraining.

Discussion of the case

There is no doubt about the socially responsible behaviour of the management of the French companies concerned here. Indeed, in the case under consideration, one may wonder how the undertaking would have exercised its social responsibility without their commitment. But it should be noted that, under French law, the measures adopted do not really go beyond what is legally required, since Article L 321-4-1 of the Code du Travail lays down that a redundancy programme must include ‘a plan for the redeployment of employees’ and that this plan must provide measures such as the ‘creation of new activities, training and retraining schemes and schemes for redeployment inside or outside the undertaking’. This fact has become even clearer since the vote on the Loi de modernisation sociale, which provides that ‘schemes to promote redeployment outside the undertaking, particularly in the form of support for the reactivation of the labour pool’ (new wording of Article L 321-4-1) must be initiated by undertakings that are required to prepare a job protection plan.

The staff representatives voted in favour of the retraining plan; today, they still take a positive view of what was done in this area. Certainly, the results in terms of employment are clearly superior to those disclosed by the studies and statistics published by the Division des études statistiques (Statistical Studies Division - ‘DARES’) of the Ministry of Labour. But the procedure as a whole has been the subject of heated debate, involving a complaint to an employment tribunal by about a hundred employees. They challenged the reality of the economic ground for the restructuring operation, and the fragility of an isolated and localised process for exercising social responsibility should be noted. Thus, although the establishment of a redeployment plan did produce results, it did not legitimise the decision to close the works, which is still the subject of widespread incomprehension and opposition among the employees and their representatives. This poses the problem of the sustained consistency of the company’s exercise of its social responsibility, and also the problem of the consequences of the action taken. The management, which had committed itself to the creation of this socially responsible process, now has to justify an increase in the costs of the operation that would result from an unfavourable decision by the tribunal.

This situation emphasises the central role of information in the process of exercising social responsibility, and the case considered here makes its importance doubly apparent. The announcement of the decision to close the works, when it was confirmed by the acquiring group, and then the information and consultation of the workforce throughout the process made it possible for the retraining operation to exist. Conversely, the organising of the process of information on the economic decision and the timing of the announcement of that decision are still unresolved issues in this case.
Finally, it should be noted that, although the employees had the use of the works council as a forum for debate and appropriate exchanges of opinion, and their union organisations to represent their interests at local level, no such forum was available to the other stakeholders. The labour authority was informed (as required by French law in the latter case) of the decisions taken, and the redundancy programme was submitted to it for an opinion in the course of an iterative process. The local authority concerned and the *Conseil Général* of the department were also notified of the action which the company intended to take. In this latter case, however, the exchange of information did not result in a more advanced process of consultation.